# Closed Caption Log, Council Budget Work Session, 04/27/11

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We'll call this Austin City Council budget work session to order on wednesday, september 27 at 9:27 a.m.

We're meeting in the boards and commissions room, austin city hall, 301 west 2nd street, austin, texas.

This morning we're having a briefing on the various enterprise funds, and to introduce these briefings, leslie browder, the chief financial officer.

Thank you, mayor.

Yesterday we heard from austin energy, their quarterly report, and their five-year financial forecast.

Today we will be hearing from the remainder of the city's enterprise funds starting with the austin water utility.

We'll actually have a presentation from the watershed protection department as well, solid waste services, the transportation fund and the parking management fund.

At the end of the presentation, ed van eno, our budget officer, will come up and basically summarize.

We will show the slide that we typically show at the end of each five-year forecast work session with just at this point in time the forecasted impact and property tax impact, on the average utility user and austin resident, and just as a reminder, and I think ed will reiterate this at that point in time when he covers that information for you, this is a forecast, it is not a budget.

We'll be working from here to scrub those numbers and make things as low and affordable as possible while still being able to deliver effective services.

So with that I think the water utility is up.

Rudy garza, greg make mazerus and -- I'll turn it over to them.

Council, without objection, the way we can proceed is have a briefing on each individual department and then pause at the end of that for questions from council members -- questions or comments from council members. So welcome.

Thank you, mayor. Again, greg mazerus, austin water. David anders and -- oh, thank you, and rudy

garza. So we can jump in. We have a lot of ground to cover today.

From an outline perspective what we want to do today is go over our five-year forecast, start with requirements, then transition into revenue and rates forecast, talk about a new fixed fee that we are proposing to the council called our water sustainability fee, review our capital budget and then have kind of a general fund summary slide.

Going to start on the requirements side.

As we looked forward in requirements about this time last year we were forecasting our requirements for 2012 in our five-year forecast and we were looking at about $465 million for 2012 requirements, and our current forecast to you today for the 2012 period is down a little bit from that forecast about a year ago.

I think that's, you know, a pretty good outcome, down about 1% from what we had forecast.

So from a requirement perspective we're really not seeing any significant changes from the previous forecast period.

And I think in part that's a result from some important cost containment efforts the utility has been conducting over the last several years.

Again, we're not proposing ANY NEW FTEs FOR OUR Budget for 2012.

It's been actually three years that we haven't added an fte.

We've also been increasing our vacancy rate.

Predominantly after the last fiscal year where we had a significant revenue loss, about $53 million, one of the kind of responses we had to increasing our vacancies.

Our natural vacancy rate we like to keep around 4 or 5%.

We've doubled that over the last couple years.

We're now right about a little over 10% vacancies, which is about 107 position, that's generating an increased savings, but also it's starting to impact some of our service levels.

Vacancies tend to concentrate a little more in our occupancy dipts, we have turnove department, pipelines, meters, on the pipe side, so we don't want to stay at the 10% vacancy rate for an extended period of time.

We'll probably keep that vacancy rate to this year, but in 2012 we'd like to bring that down to 7% and then hopefully in future dubts bring that down to a more natural rate 4 or 5%.

We've been taking steps to control commodity costs in our budget.

Our 2012 budget is planned to have those at 2008 levels.

That's four years we've tried to keep those flat.

We've reduced our capital improvement 5%, so we're taking steps to reduce capital expenses and

we've reduced our overall contingency levels in our budget, so again, to sop up any contingency that we're not likely to need.

There has been cost increases in 2012, and just to run down a few of the larger ones, the biggest cost increase is our conversion to green choice.

As you know, the council directive is to have all city departments convert to green choice power by 2012, and that's in our forecast for 2012.

It's about 3.1 million.

We're also programming in additional dollars for ae customer care as they transition to the new billing system, and meter reading costs, so that's 2.8 million.

We have programmed in where a -- we're a large power user of ae so as they raise rates it impacts the water utility too.

We have that programmed in at 1.2 million.

General wage increases, retirement, health insurance for employees is programmed in as well as a little bit higher for fuel.

Really, all of those are outside the utility's direct purview.

In the yiewlt we see a small -- utility we see a small increase in chemical and then operating cost decreases we told you about earlier is helping to offset.

1 Million is the o&m of the increase, which is in alignment for where we thought it would be in the forecast period last year. The other part is debt service. We're forecasting about $18 million in debt service.

You may think intuitively that's for a new capital and a portion of that is for a new capital that's under way, but over half of that, $10 million, is for additional cost for debt issued in the 1990s.

In the 1990s, early '90s, the utility's debt was configured in a way that pushed higher portions of that debt repayment into the future, and that allowed rates to stay very low in the '90s.

As a matter of fact, there was a string of 0% rate increases, but we're having to deal with that today, kind of their sunset is our dawn, and about $10 million of this debt service is for that restructuring of debt in the '90s, and that will be with us for several years.

We'll have to have increasing debt service from those bond issues from about 2018 I think is when it those start to fall off.

This is just a total requirements summary.

I won't go through all of this line by line, but you may have questions on this afterwards.

It just really sums up all the requirements side of the five-year forecast, not only 2012 but throughout the five-year forecast period.

Let me transition now to a little more of the revenue and rates side of the forecast.

Previously when we were here last year for 2012 we were forecasting the need to raise about $466 million that would have required about a 5 1/2% water increase, 3 1/2 for wastewater, combined rates of 4 1/2%.

A lot has changed since that forecast period and we want to start to update you on that today.

If you look at the water service line you'll see that we're forecasting water revenues will be about $19 million below what we had thought previously, and we'll go into that, but predominantly that's a conservation phenomenon that we see conservation being very successful, particularly after the drought of '09 when we went to stage 2 one-day water restrictions that were heavily enforced, that that really accelerated the conservation program.

Wastewater is about the same.

One of the new fee structures that we're proposing, we'll go into this in more detail, is something we are terming as a sustainability fee.

This is a new monthly fixed fee, that would help us manage volatility and help us continue the good work that we're doing in our conservation and some of the other areas of our utilities, so I'll go into that some in some more detail because that's a whole new concept we want to work into as I get into some of the slides.

In general the new concepts are water revenues are being forecasted lower, predominantly through a mixture of economic conditions but also a lot of that being conservation.

One of the ways we're adapting our rate model is through this new sustainability fee and then you see the proposed increased increases on the 7, and 8 for wastewater, for a 2 plus the sustainability fee. A few other revenue assumptions.

Forecasting a growth for 4%, which is low, or lower than it's traditionally been.

The outer years of the forecast, that's up a little higher but we're still seeing softness in new customer growth, and we are changing the amount of water that we're forecasting for an average water consumption.

And if you look at kind of the bottom of this slide, if you look at the 14 year period from 1994 to 2007 before we really started stepping up our conservation, particularly the two-day water schedule, our average use was 8,264 gallons.

If you look at the three-year forecast from 2008 to 2010 or the three-year average, which included the last three years of conservation including that heavy drought year, the usage was down to an average of 7,972.

And then if you project to 2016, by 2016 we would see that use dropping on average to 7,470.

6% reduction from the 2007 average, before heavy conservation to -- in 2016, so I think it's an indicator to us that conservation is working and it's going to reduce and overall lower consumption on average for customers.

And drilling into that a little bit more, in terms of actual water, across a typical year, an average year, in

2012 we are now forecasting about 9 billion gallons less water sales, 4 billion gallons of that is coming from conservation programs that are currently in place, and 5 billion gallons of that will come from conservation programs that are being implemented or will be implemented over the next year. And we have some big things coming, like on the reclaim side, university of texas is starting its transition to reclaim. Abi airport will start to reclaim. So we see a lot of reclaim starting to come into focus. We'll have additional rebates for commercial, so we see conservation continuing to pick up steam. That results in about 9 million in reduced revenues for 2012 compared to a conservation -- or a nonconservation baseline from 2007. And then as you carry that forward through 2016 as we stay on course with our ten-year conservation plan, we'd see about a total of 8 billion gallons of reduced water sales, 2 1/2 billion of that coming from existing programs currently place an additional 3 billion to be implemented, and by 2016 from a raw revenue perspective, that's about 7 million of revenue reductions. Now, one of the things as we've talked with the council in previous forecasts as we've gone to boards and commissions over the last several years, has been a lot of encouragement, for the utility to start thinking about ways to adapt our business model to deal with these changing dynamics, and what we're going to propose to you in this forecast, which would come into clearer focus in the actual budget, is a new monthly fixed fee. We're terming it a water sustainability fee because we think this helps us get at the triple bottom line when we think about sustainability in its broadest senses. What we want to seek to achieve with this new monthly fixed fee is first we want to stabilize utility finances, that through a combination of conservation, weather and economy, we have high volatility in our revenues. Last year as I described, last fiscal year, $53 million with a combination of all of those factors in reduced revenues. This year we're probably a lot closer to our forecast, but it's really hard when a huge percentage of our cost is fixed, it doesn't vary, in terms of how much we pay each year to service our debt or transfer back to the general fund or pay our employees, that a lot of that doesn't change with how much water we sell, yet our water revenues go up and down and up and down and that's just not healthy in the long run, and we want to start to deal with that, like to engage the council in some concepts. We think this water sustainability fee is one of them. One, we think by starting to decouple water revenues from conservation programs, because you're seeing the impacts of conservation, that helps us invest more in conservation that again we're not as tied up in how conservation affects revenues, that we're able to continue to make those good investments and it strengthens our commitment to conservation. We also think a sustainability fee continues to reflect investments in community values. Will austin water does a lot for the community other than just water and wastewater. I think a really good example is it our open space. We acquired tens of thousands of acres of open space to protect water quality, to protect quality of barton springs, which is a part of our water supply and will be again in the future. We also manage the overall [inaudible] lands for the issue, which is biodiversity. So we think the sustainability fee helps us at that work. It gets at the triple bottom line, the economic side, the environmental side and the community values and things like the openness. And what we're proposing is a new fee that would raise about $17 million per year through a new monthly fixed fee. It wouldn't be depending on how much water you used. It would be a part of the monthly fixed fees. Would it would, again, reduce volatility for us. It would be based on the size of your meter. So the bigger your meter, the more you pay. So if you have a bigger meter, like if you're a big irrigator, you would pay more money. If you have a smaller meter, like a residential, you'd pay a little less money, but it would be the same for everyone with the same meter size. This would have an affordability component. Right now we waive any fixed fee if you meet income eligibility. We have about 5,000 customers, a little over that, that have their monthly fixed fee waived, and this new sustainability fee would be under that umbrella. So if you had met the affordability goal right now you would also have this fee waived. So I think that's a good element in terms of affordability. And initially for the billing system, this would just be implemented as a part of our monthly fixed fees, the building system right now doesn't have the ability to separate this out as a separate fee, but once the new billing system is in place, that is certainly an option for us to do. Now, how we come up with 17 million really wasn't a real detailed analysis. We just kind of put together and said, hey, each year we're investing in conservation about $8 million to run our conservation programs. We invest in these other sustainability things like the management of the wild lands that we have each year. The debt service that we pay for the open space that we acquire for water quality protection. Some of the revenue losses associated in 2012 for conservation and the add a volatility component of that, that's roughly 34 1/2 million in terms of those features. And we propose collecting half of that through this fee, $17 million. I think that that was a judgment. You could collect more, you could collect

less. We thought that was a good kind of recommendation starting point for this sustainability fee. And this schedule here just provides the proposed fee structure based on meter size.

Most residential customers have a 5/8-inch meter so they would pay -- this new fee would be -- assuming we raised 17 million, it would 4%, and then if you have a little bigger meter, three-quarters inch or one inch, irrigator, commercial or residential size, you pay a little bit more and then big meters you pay substantially more compared to the smaller meter size.

And again, this is how it would break down to raise about $17 million through this fee. And I will say that this money substitutes for rate increase money, that if -- by raising this through a fixed fee we're able to keep the actual rate percentage down, so it isn't like new money in the sense of -- it's just money that is more -- is less volatile, i would say, that this is money that is guaranteed and it's not going to be dependent on whether it's rainy or sunny, how effective conservation is or not, that this is just a way to really get at we have these fixed fees that occur every year, and this helps us reduce that volatility.

Now, the total picture for the five-year forecast for revenue and rates, this is kind of through 2016, we will note a few other items as we've described for the council before, our large volume customers for commercial and industrial are currently above cost, and for the last several years we've been transitioning them about 1% a year back to cost. And we would propose that we continue that for 2012.

We'd also propose if we put the sustainability fee in place, that -- for the forecast period, that it would go up slightly with inflation so that the amount of money it raises each year stays consistent, so that also assumes a small increase in the fee throughout the five-year forecast period. And the fee could change more than that too. I mean, that's an option for future discussion. Okay. What do these rates mean in 2012 for the typical residential customer?

A typical residential customer, an average residential customer, we estimate is about 8,000 gallons a water average throughout the year and about 4500 gallons of wastewater. And by the way, if you look at the note at the bottom that's lower than what it has been traditionally. Through conservation the average residential customer is using less water and wastewater on average, so that average, we're changing that average this year.

And it even goes to the concept of rate increases don't necessarily mean that you're going to pay that much more in the rate increase because if you're conserving and your water is going down, that the percentage of your household income that goes to water and wastewater may not be changing that much.

But through a combination of the volumetric changes for water and wastewater and a new sustainability fee, an average customer using that amount of water would pay 93 more, so their typical bill is 34, that would go to 27, and so you can kind of see that on this slide here.

Now, one of the things that invariably comes up when we talk about rates is plant 4 and how much of the rate is plant 4 driven, so we thought we'd provide a slide for you since we typically get questions along that line and we can refer to this slide.

In 2012 the rate percentage on water associated with 7%, and that's to pay for project work that's essentially been completed, that, you know, we always kind of short-term fund it with commercial paper and then as we roll it up into bonds.

That's about 53 cents per month for the 2007 piece of plant 4, and then you can see the previous years' elements of plant 4 and then the forecasted future plant 4 elements for a total plant 4 impact by the end of the forecast period of $3.52.

That would be the cost for a typical residential customer for plant 4. And also in the forecast period, you can see, you know, plant 4 really gets in the rearview mirror. That it's done by 2014, so two years of this forecast period really plant 4 is behind us. It's completed. So I don't know if that's good news. It is to me. A day without plant 4 is a good day. [Laughter]

[inaudible]

you're cruel. [Laughter] a few other elements in revenue and rates we want to talk about. We're also proposing this forecast period to raise reclaim water rates at a little accelerated pace. Right now reclaim water is just dirt cheap. I mean, we charge about -- a little over a buck for a thousand gallons of reclaimed water.

To put it in perspective, the highest block rate we have on the residential side for potable water is about $12, so reclaimed water is very, very affordable, and we think it would be a good consideration to raise that up a little bit, to get it a little bit closer percentagewise, a little closer to potable water. So over the five-year forecast period we have proposed raising that about 15% per year to get it up to $2.29 by 2016. We also would like to have the council consider a change to how we do wastewater averaging.

Wastewater averaging is during the winter months we average wastewater for residential customers, and then that's what they're charged in the summer months when they're watering. You can't use the water meter reading in the summer months for wastewater because a chunk of that water is going for irrigation. We use this averaging technique in the winter months. And in 2001 the council changed the averaging formula, and they directed the utility to drop the lowest month of the three months every year, so it's really only based on a two-month average -- or drop the highest month, drop the highest month. And so -- what -- we think it's more in keeping with conservation to keep the three-year average, to not drop that high month, that we really don't want people irrigating a lot in the winter.

We think this dropping every year of the highest month is something that is not as in keeping with conservation, so we would propose that the council consider just keeping the three-month average. I think it's pretty consistent with what other and of course the council always has the option in any one year to say, hey, this was a really dry year. Let's go ahead and drop that highest month.

You could do that on a year by year basis, but just having it as a uniform across the board policy -- i mean, a great example was this really wet winter we had last year, that we -- even though it was such a wet winter, we still dropped the highest month, and he and we think that's something the council may still want to consider if that's still the wisest way to do this wastewater averaging. This graph shows our current average residential bill compared to other customers. This isn't assuming the rate increase in 2012 because we don't know exactly where that's going to end up with some of these features. This is our current rates compared to other utilities, and as it's been in the past, we have a strong central tendency. Some are lower, some are higher, and we kind of hang about in the middle. And in general across the industry now in texas but the united states, many, many utilities are raising rates. So, you know, we certainly won't be in the minority in terms of proposing rate increases. This graph, just is again a summary of all the revenue side across the five-year forecast period. I won't really go through this line by line, but if we have to refer back to this we can. A couple other things to note for you on the capital side. Again, we're proposing through the five-year period a little over a billion dollars of capital investment. That's down about 10% from our previous forecast period. We've taken a lot of look at our capital programs. We've updated our cost estimates based on bidding environments. We've resequenced some projects to reduce capital spending through the five-year period. Of course by 2016 you can see -- and 2015, plant 4 is out of the picture so water capital really settles down to a much lower level. Wastewater capital starts to settle down.

And we really -- as we talked about in the past forecast, beginning in about 2015 we really see that we don't have a major huge 100, $200 million capital project out there for at least several years, so hopefully, knock on wood, everything starts to really stay pretty stable in the capital investment side

from 2015 on.

Some of the features of the capital program, of course plant 4 is the biggest single element in the 5 year capital project, about 9 million of additional spending, most of that occurring in the next three years, and these are just some pictures. And there are pieces of plant 4 that are already done. The widening is done, all the excavation on the raw water pump station is done, the storm water ponds are done. We'll be completing other project elements, so it's again, nice to see some features of that actually being completed. Other parts of our capital program besides plant 4, we're continuing to make very healthy investments in keeping our current infrastructure well running. On the treatment plant side in our wastewater -- existing wastewater plants and water plants, we're going to invest about -- almost 180 million over the five-year period. For water and wastewater, pipeline rehabilitations and replacements, about 171 million.

Service extensions, new service extensions where we oversize and extend for future growth and development, about 49 million, about 40 million for reclaimed projects through the five-year forecast period. We complete our south i-35 program where we have about $11 million to go to complete all that work in the south i-35 area and our downtown tunnel will be completed in 2012, about another $10 million there. So again, I think pretty good progress and a pretty good balance between the new infrastructure and rehabilitation of existing. And the last slide is just, again, the total picture of revenues and requirements and ending balances and projected rate increases and debt coverage. This five-year forecast does comply with all council policy directives for fiscal policies, and I think that's the last slide and we'd be happy to answer any questions you may have. I know that was a lot to cover. I do have a couple of questions, comments.

First of all, you talked initially a lot about new conservation measures, and i assume these are based on the recommendations that came out of the citizens water conservation task force, and at the time, you know, we had asked in december, I believe it was, or january that you come back with what would be required to implement the goal, the 140 goal, and there were a lot of things in there that of course have not been adopted by the council, a lot of conservation measures that would require ordinance changes, other kinds of administrative changes. Does this cost, this reduction to 7470 by 2016, does it assume that all of these measures will be adopted?

Mayor, it's a combination of conservation measures. Some of the conservation program elements in the first part of the forecast, 2012-2013, are the completion or the continuing implementation of the 2007 task force, like reclaimed water -- yeah, and those are already been approved by council but these others have not, the point I'm trying to make.

As you get into the outer years of the forecast, 2015, 2016, that's when you'll start to see the new measures picking up. so the numbers you're giving us are basically assuming that all of these measures are ultimately adopted, which would be the most conservative case?

Yes.

Mayor leffingwell: okay. So it could be the water consumption could be slightly higher if some of these measures are not adopted?

That's correct.

Mayor leffingwell: okay. Second, I want to comment, i really like the concept. I'm surprised we haven't thought of it before, of the fixed fee, the sustainability fee, because to me what it really does is it assigns a cost to functions that the water utility is currently performing that are not core water and wastewater functions. For example, maintenance of the entire wild lands division in the water utility, which includes not only water quality protection lands but also the balcones preserve. So those actually came under the water utility's purview fairly recently, about 10 years ago, I guess. They were transferred from the parks

department to the water utility, and to me it makes total sense that we -- we take those out of the water bill per se and assign a cost to them, because, again, if we're going to talk about at some time in the future what are the core water utility functions, water and wastewater, we've got to be able to talk about that separately from these other functions that have been assigned to the water utility. So I think it's a great idea, and I'm going to be very supportive of it. The third thing -- I think if I read this right, on plant 4, the total impact on the average water bill by 2016 is about 30 cents a month, 3 --

no, 3.52 a month. 52 a month, okay. In the line it said annual cost.

Oh, did i? That was probably an error, then. it's fairly minimal. But anyway, it's good to get that clarified. On reclaimed water, which is a program I totally support and that's a part of the 2007 recommendations, you mentioned that the cost of reclaimed water is very low, and of course it should be. Are we talking about arriving at a cost of reclaimed water still much lower than treated water that basically reflects the cost of delivery of that? Or are we still subsidizing it to some degree?

I'm going to have david anders try that one.

With the rate increases that we are projecting through 2016, we project that the total at 2016 will probably still be 50 to 60% of our potable -- average potable water rate, and so that still could go up a little bit higher than that, so we could be a little bit more aggressive. But it still provides an incentive for those customers that want to irrigate with reclaimed water as opposed to the higher rates that they would have on the potable water. yeah, and it's a bargain. It's something -- as I said, I totally support, because it has an impact on the amount of water that we draw out of the colorado basin, which in turn has an effect on when we're going to have to start paying for water when we hit that trigger point. So it's all good. I just wanted to ask for clarification, if what we're planning on charging, 50, 60% of the cost of treated water, reflects the cost of building the infrastructure and treating the water to a point where it can be used in that system. Are we -- do you understand what I'm saying?

We could definitely come back on that, but I think there would still be at 2016, probably some subsidy of the water and wastewater utility of the reclaimed system.

Well, again, I'll not -- you know, as I said, I think it's a good thing, we ought to continue to do it, we just need to know where we are in relation to cost/benefit. And finally, the question is on the wastewater averaging, what are the three months that we used?

It's three months from a billing period of about mid-november to mid-march, but typically you would -- some of them might be, you know, mid-november through december and january and some will start in mid december or in december, and it will be december, jan and february, so it takes us about five months to get all of a three-month period during that time.

I just think it's a good thing for our customers to know exactly when that wastewater averaging period begins, especially if we're going to talk about removing the highest month.

We do bill stuffers and other advertisements so that we try to signal -- assumi assumi ng that everybody reads those stuffers, yes. [Laughter] I always pour over those myself. [Laughter] okay. Overall, I think it's a great report. I appreciate it, and --

mayor?

Mayor leffingwell: mike? I have a couple questions. Thank you for the report. Very informative. Helps me understand the future of our water utility. I want to go back to one of the very early slides, slide 22, because I caught a little something that you said and I want to get the true impact of our service delivery. You said in that slide where, you know, the vacancy rate is hovering about 10%, that you're

finally seeing service delivery being impacted. And I just want to know -- I'd like for you to give us an example of what that means. Does it mean a slower response to water main breaks? You know, what exactly does impact on service delivery mean?

Yes, we set a goal during the last drought to try to respond to all leaks in the same day, and -- at the 10% vacancy rate, we're really struggling to keep up with that same-day response goal, and that's really important. Particularly we're in another drought, and we would like to be able to do that. We implemented a second shift, and, you know, as you have vacancies it's hard to keep that second shift as focused. So we're then shifting resources around. As an example, one of the things that isn't as urgent is valve turning. We like to exercise our valves on a regular basis and set performance goals there, but sometimes we have to sacrifice those service levels to do a better leak response. You know, hydrants is another high priority area. We like to put hydrants back in service as soon as possible. So there's other goal areas we may relax the service level a little bit. We sometimes -- we might have a maintenance contract that you have in place and you might say, well, I'm going to skip a year on that maintenance contract. I won't maintain that piece of equipment for one year through a contractual basis. I might try to skip that for a year. And you don't want to keep doing that. Maybe one year is okay, but two years wouldn't be wise or three years wouldn't be wise. So it's a -- council members, it's a combination of those factors, but particularly in our pipeline area, I mean, if my ad here, george calhoun -- he's really struggling to keep up with service areas. Because pipeline grows every year. Every year our network gets bigger, more geographically dispersed, more travel time to get there. He's probably carrying, jeez, 50, 60 vacancies, and that's a lot. And we just don't want to stay in that state of affairs chronically. and I agree with you. What I'd like for us to keep in mind as we go through this budget process, city manager, I think there's an economies of scale that we tip over where by having this many vacancies, it's actually costing us money because we're not able to respond and mitigate, you know, water leaks and water mains that break. So I want us to keep that in mind. If we are reaching that tipping point, it might be prudent for us to fill those vacancies and actually save money by hiring more employees as opposed to this little vacancy savings we're creating but costing ourselves exponentially more in lack of response service.

As another example of like the concept of volatility, the need to repair our system and respond to leaks rapidly doesn't change with how much water we sell each year, but our revenues can go up and down. So when you use 53 million gallons a year you have to deal with that. One of the ways we do that is omitting vacancies. I'd like to decouple that a little bit --

I appreciate it. The other question I have is regarding the sustainability fee. I do think that that is an area we need to begin discussing, and obviously you're making that proposal this year. But I wanted to ask, does something like a sustainability fee -- would it have to go to the public utility commission for approval?

No, we check with law -- checked with law, and this is something that we can implement as a whole new utility, that it's really at the council's discretion. Jump in david if I'm --

that's correct. but is there any exposure to potential appeal of initiating such a fee and would that go to the puc or would it have to go to court? I'm just trying to look at any potential exposure we might have with creating this, because I can certainly see a lot of folks in the community not being happy with this new fee.

Where we are at risk from a legal perspective on our rate challenges would be that our outside city customers or our wholesale customers that would be charged this fee could challenge our rates. Now, this proposal assumes that we do not charge this particular fee to our wholesale customers, so we would try to deal with them from a volatility standpoint in another manner, by just raising their regular minimum charge a little bit higher. But our outside city customers, which we have a few thousand of those customers, they could challenge our rates to the -- not to the puc, we don't -- the tceq actually looks at our rates if they challenge, and our outside customers would have to get a petition of at least

10% of the outside customers would have to sign a petition and send that to the tceq to challenge our rates, and then typically at that time we would work with those customers to come to some sort of a settlement before it would go through a complete rate challenge. But that's the risk that we would have.

But I would add, the fee -- the numbers are real. I mean, it's justified, and by implementing it based on your meter size, that's a cost of service type implementation, which is the standard you need to meet. So implementing this fee, we think would meet any legal standard that we may have to work through. could I -- I just follow on that a little bit? As I said, the things that are paid for with the sustainability fee are not core utility functions, so if it came right down to brass tax, the opportunity of the water utility could be to not perform these functions at all, to not incur these expenses at all. So if you didn't have the fee, you wouldn't perform that service. You would not maintain the wildlands division, folk, within the water utility. That would have to be funded in some other way. And that is -- to me that is the alternative. Yeah? ?

And greg, in the absence of the fee, why don't you make your point about what happens to rates.

Without the funding of the fee, assuming we didn't drop any of these services, I think the other response would be you could just raise the volumetric percentage higher, that that would be another -- another way to respond. So this helps -- helps balance between those two. to me it's transparency, you know, what are we spending this money on. People know what they're spending their money on. And then they have some basis for making a decision about it. And then just a brief comment to follow up on mike's remarks about the, you know -- there's a tipping point somewhere. There is definitely a tipping point, and back in 2007 when we talked about we're losing all this water through leakage every year, I think the number we were working with back then was 12 million gallons a day, which sounds huge, and it is, but if you wanted to say reduce that rate to zero, you know, that would be a huge cost. I mean, the cost of implementation there, esentocity approaches infinity, if I can use those words. We tried to reach the sweet spot as far as cost-effectiveness as a goal, and that program was to reduce leakage by 30%. That was what we determined as sort of an initial guess of what the cost-effective point was, but mike's point is well-taken. We need to continue to look at that to see where that spot is, so we -- we need to be as far as our goal for reducing leakage, and that of course affects main power. Chris?

Riley: yeah. Picking up on the point about the sustainability fee, I'm not sure I totally agree that we're talking about uses -- about functions that are unrelated to the utility's core functions, because built into the sustainability fee are estimates about conservation operations, and that spills over into just the basic income -- basic revenue of the utility. And, in fact, I see at the bottom of slide 30, the last bullet says that the initial implementation is a higher minimum charge. To me what this is -- this is most closely comparable to -- what we're talking about with the electric utility, we're talking about going with an increased customer charge, going up from $6 to, say, $20, in recognition of the fact there's some value just being part of the system, and this is comparable to that. It reduces the volatility of the revenue and will ultimately promote conservation programs. It's almost a new business model that attaches a higher fee per customer. And it's not necessarily just functions that are unrelated to the delivery of water because it includes conservation. Is that a fair comparison, that it's comparable to an increased customer charge, the electric utility?

It is a fixed fee.

Riley: right.

So that is a part of it. The -- you know, it's whether or not you consider things like conservation optional or not, but it clearly has conservation recovery elements in it, in addition to the wiel -- wild lands.

Riley: right. I want to go to slide 27, we were talking about the revenue assumptions. When we talk about the assumptions on water consumption per account, i was trying to get a feel for those assumptions in terms of gallons per capita per day, which is a little difficult because we're talking about

per account. How many -- how many residents do we typically do we have to look at the average household size in order to go from the figures per account to a figures per capita?

Well, per capita calculation, we just take the total population divided by the total water we pump, and that's how we come up with per capita. so you can't go straight from the per account figure directly to a per capita per day.

No. when we look at the consumption assumptions of an average of 7 -- 7,470 gallons for the residential -- residential average consumption per account per month, do you have any sense of what that would be in terms of gallons per capita per day?

We're following the progression of reducing gallons per capita per day that we outline in the ten-year plan, so I don't know exactly off the top of my head where we would end up in 2016, but it's probably going to be in the LOW 150s ON AVERAGE, WOULD Be about where we would end up, if that was your question.

Riley: okay.

Now, I would caveat that the -- that's an average. If we have a dry three or four-year forecast period, per capita will be a little higher. If we have a wetter forecast period per capita would be a little lower, but our long-term average is projected to go down about 1 1/2 to 2% a year over the next ten years provided we implement all of the recommendations that we either turntly have on board or are coming up in the on currently have on board or are coming up in the future.

But if we were actually to achieve a goal of staying within 140 gallons her capita per day, then these -- these assumptions would be overstated? I mean, we would wind up at revenue less than we see here?

It depends -- the current 140 plan period of implementation was ten years, the goal was to hit 140 by 2020. So if you're asking if we were to try to accelerate that to hit 140 by 2016, is that --

riley: I see. So you would say that this is consistent with the long-term goal, because we're moving in that direction --

yes. -- but it doesn't -- it doesn't represent staying below 140 --

right. By 2020 that average use would be even lower. It would be another -- i don't know what --

4 or 500 gallons.

It would be another 4 or 500 gallons lower by 2020.

Riley: okay. And then if we could just -- I just want to ask a couple questions about the capital improvement program. The slide -- on slide 42. This is a snapshot, and it's a little hard to tell from this where this -- what this represents in terms of our progress on long-term capital goals. The mayor was talking about our progress on limiting the leaks in the system, and a lot of -- a lot of folks have expressed concern about that, like are we staying on track in terms of replacing those olds pipes that are especially leaky. Can you give us a sense of where these figures put us in terms of our long-term progress on fixing the old leaky pipes?

Yes. On -- in terms of replacing old infrastructure, we're trying to settle in on kind of a consistent service level. This is a graph, I had our distribution engineering prepare through the five-year forecast. We're projecting about an average of between 12 and 14 miles of water main replaced each year. So that's

roughly about 70 miles of older cast iron water main that's prone to leak and break being replaced. That's a combination of replacements through things that are -- staff does internally as well as replacements associated with transportation projects when they're, you know, tearing up the road, we like to replace a bad water main if it's there, as well as just stand alone replacement projects that we do. As the mayor described, our goal is to reduce lost water by about a third, and we're making really excellent progress there. We just did a report to the resource management commission as well as water and wastewater commission. We had our best ever water audit in terms of accounting for lost water and what we call our ili, or leak index was all-time low. It's in the top tier performance in terms of how awa ranks those. Council, we still have a ways to go but I think we're making really good pro-progress and we'd like to have a sustained amount of investment in main replacement each year. I mean, you know, if you ask my distribution fellow, he would say, yeah, give me more, I'll spend more. But we could consistently replace year after year replace 14 miles, 15 miles, that would be a really good thing, as you look over 5, 10, 15 years, we'd make a lot of progress in terms of replacing this old infrastructure, that not only is prone to leaking and breaking but often is undersized from, you know, our -- our current minimums, our 8-inch water lines, a lot of these are even 4-inch water lines, 6-inch. So you get a lot of benefit from a service level in addition to reducing leaks and breaks. so your sense is that the cost shown here for the period 2012 to 2016, that that leaves us on course to achieve the level of progress that you're referring to?

Yes.

Riley: okay.

And similarly on the wastewater side we want to continue to make investments in rehabbing wastewater lines so we can keep sanitation overflows low. We had an all-time low on sanitary overflows last year. We spent $4 million. That would continue. We have a lot of things we want to do in existing wastewater plants and we have a lot of projects we're investing there, in not only in the five-year but also in the 10 year cip period, so strengthening those. So I think it's a pretty good mix. And particularly as we get into 2015, 2016, a very large percentage of the capital program that you see there is really wrapped around maintaining and rehabbing existing infrastructure as opposed to expansion projects. We don't have a real major expansion project like a southeast program or a downtown tunnel or a plant 4 in the forecast period beyond 2015 -- or 2014. [One moment, please, for ]

the total master plan was a very long term, 35, 40 year master plan, but we are starting to zero in on the next piece of that from a tower perspective. The pipeline system is building out. Focusing on the highest priority projects, line, we have a line under -- to abia under construction, out of walnut to pick up a large industrial customer there. Rehabilitation work. We are on course with that master plan.

Riley: Thanks.

Martinez: I just want to follow up on this last point about our next tower. It was moving forward without neighborhood participation. We had selected a site. We were moving forward with the zoning case on this site. [Indiscernible] before we started moving forward with the rezoning sites for water infrastructure. Because it really caused concerns, I'm glad that we were able to mutually agree for the site suitable to us, also suitable to the neighbors, but that's something that could have been avoided had we done the public input process. I hope that we keep that in mind moving forward.

Point well taken.

Thanks.

Spelman: Greg, I have good news for you, I have no questions on water treatment plant. The bad news

is, I have questions on everything else.

All right.

Spelman: I will keep them real short. I will probably have -- my staff and I will probably send you questions for later discussion. Three high points. One of them is the service rate increases that you are projecting for this year up through 2016. 7% increase for water. For 2012. And at least one of the ways that you are proposing to pay for it is a sustainability fee of about four bucks per residential customer. Ratcheting upwards depending on the size of your meter. Do I understand correctly?

That's correct. 7% service rate increase will be paid for out of that fixed sustainability fee? All of it? Some of it?

State your question again.

Spelman: Sure, you are projecting a necessary 7% in service rates. 7% increase in volume rates or variable prices per gallon? 7% increase in the total bill?

David, help me if I get this wrong. 7% is the volumetric rate increase for water. Then the sustainability fee is additional. 7 would -- is the additional amount of revenues that we would get in 2012. It's typically a combination of volumetric primarily and usually there's a minimum charge that goes up slightly. So we have like on the water 10 minimum charge. We might propose that to go 50 as a part of that 6.7%. But the most of it would be volumetric rate increase.

Spelman: Okay. I'll believe you instead of greg right now since he did defer to you a second ago much we're talking about 10 is the fixed charge for residential customers. That might go up to 50 although I'm not going to hold you to that number later on. You didn't developed the budget yet. In addition the volumetric rates are going to go up a little bit. And the combination of increase in the fixed costs and the volumetric increases 7% in total revenues.

Correct.

Okay. 7%, includes a sustainability fee or not?

It does not.

It does not. Okay. 7 is going to be the increases in our current fee structure. Over that we're going to lay over another four bucks a month, roughly?

Councilmember, if i could, I think slide 34 might clear that up a little bit.

That shows it broken out a little more for ya. This is for a residential customer.

Spelman: Okay. Slide 34, that's how we're 3% increase in the total bill, even though water and wastewater combined is only increasing by 5%. Basically 7% of this is sustainability fee, 5% of is the increase in fixed -- plus the volumetric charges.

Corrected.

Gotcha. Okay. You add all of that up, 3%, that's what we're going to need in order to cover our operating expenses. Are you projecting that we're going to be in the black next year, if everything works

fully as expected to or are we still going to be in the red?

Our projections will structurally balance our revenues and requirements in each of our fiscal years of the forecast.

That's probably best seen on the very last slide where you see everything in one piece.

Spelman: Okay. There you go. That's the slide that you went over real quickly. Okay. So our ending balance is basically going to be the same as our starting balance, but we're going to lose about 10 million bucks.

It would go up a little bit.

Spelman: I see what you are saying. Looking at the raw numbers. With a 12% increase in the average residential bill combining the sustainability fee plus the volumetric and fixed charged fees we're going to be able to make our numbers, assuming thathe usage doesn't change by much and we have figured out has that usage is going to be.

Yes. Weather is always the wild card but where we are at now I think for the next year it's probably a pretty good revenue.

Spelman: Okay. Have -- have we taken into account in our forecast for the amount of water that people are going to use, the -- the extent to which price increases in this and prior years are going to affect people's willingness to consume.

Yes, we knew that you would ask that question.

Spelman: I'm glad that you have an answer for me.

This five year forecast includes the elasticity effects at this forecast amount. I don't know the index that you used but that -- that was a part of it.

Yes, we did include the price elasticity in the additional, the rate increases and the additional savings that we would get from water conservation. It was based upon our historical project that we had that identified that. 17 price elasticity. So if a 10% increase in rates would be basically a 7% decrease in consumption.

Spelman: Certainly sounds in the ballpark. The national average for elasticities for residential customers is around negative .3. But you're averaging residential customers plus industrial customers which probably have elasticity closer to zero in commercial customers probably in the same position, seems like a reasonable number.

When we forecast water use in that average going down, that includes that effect of that elasticity.

Spelman: I'm glad it does because the understanding that I had from previous years that it therefore my expectation was that the water usage was going to go down, therefore your necessary price increase would have to be a little bit higher than you estimated. That's taking into account these numbers, we shouldn't expect any second order effect of having increased .. thank you for doing that. I really appreciate that. Roughly what percentage of our usage reduction is going to be due to the increase in price or due to our additional conservation measures?

I may have to respond back to that by looking at our plan more specifically. There are several price

signals over the next few years on conservation. Of course the elasticity issue, but in the five year forecast period, probably another -- another well we have our fifth tier which is going to signal rate design conservation, but once the new billing system is in place and settles down, one of the next conservation rate goals to work with the council on is shifting commercial accounts to a more -- more use based rate structure. Similar to what we use on residential. That -- that would be probably the next rate design issue that would be wrapped around conservation.

Spelman: That -- this opens up a slightly different question. My apologies for opening up another question here, but let me do it. The ae was talking to us about their own rate designs yesterday. And how they are shifting from a use based -- almost entirely use based model for pricing. To one which has a much higher fixed cost just for getting hooked up to the system and much less reliance on the -- on the usage. So the kilowatt hour charges would go down, but you are charging more just to get hooked up to the system in the first place. It sounds to me like one of these justifications for the sustainability fee is because it reflect your cross structure. You have a relatively high fixed costs of pipelines and everything else. But it sounds like you are moving away from that for commercial customers. Why is that?

Well, it was a recommendation of the various task force for conservation was to shift commercial and multi-family customers to more of a -- of a -- of a block rate type of structure, excess use type of structure, to send a stronger price signal for conservation. But your point about fixed prices is well taken. I think as we work with the council in the future, you know, I think that we would like to visit issues like is this sustainability fee high enough, should we look at adapting the business model to similar things that ae is doing, because we're going to face similar examples. We just keep repeating ourselves, just like replacing a water line. If you repolice a water line the cost to do -- replace a water line the same is -- the price is the same no matter what goes through. We need that water line for fire service, you know, that's an important water line. Whether or not, you know, you're using it as much every day for water and so i think we're going to have to continue to work at reducing volatility and having our revenue streams be more predictable in the future.

Spelman: Okay. But that's -- well, the sustainability fee is one step in that direction at least that you are talking about implementing here in the next year.

Yes.

Spelman: Let me ask you about the capital program. Let me follow up on some of councilmember riley's questions. You are talking about a 10% reduction in the five year capital improvement program. This year as opposed to last year. So that doesn't mean that -- that next year's capital projects are going to be 10% less in cost than last year's. It means averaged over a five-year period, over the next five years, you are anticipating a 10% reduction in the capital improvement program; is that right?

Yes and no. We looked at each individual year of the five year forecast, including 2012, '13, '14, '15 and set a goal to try to reduce that by 10%. Now, it's really difficult in the next year c.i.p. Because a lot of that is under construction and, you know, you're for the going to pull the whippings off of things that are -- wings off of things that are that far down the road. But we did push our team hard to look at -- when i say our team, not just austin water, because the deployment of capital requires literally hundreds of individuals throughout our utility, public works, many other agencies. But we asked all of those folks to update the database, make sure their estimates are reflected the best possible, we deleted old records, old capital projects that were still lingering out there. We really beared down hard do we really need to do this project now, is your estimate up to date. From that, really, on average, we did reduce about 10% each year. Every year we did try to reduce that. With any five year forecast period, the new year comes in, 2016, as you're seeing we're tribal to stabilize capital along a more, a lower overall average. It was one of the commitments and points we made when we talked with our bond rating agencies back in the fall, we did our last bonds issue that we were going to work really hard to try to reduce our c.i.p. Over the five year forecast period. I think we were really successful. You always balance goals and risks and

other things, but I think by and large i certainly felt it was a successful exercise for us to do.

Sure.

We're good at spending capital. I mean -- you know, we have to challenge that sometimes and say, you know, is there a -- way for us to get everything that we need to get done and manage that.

Spelman: Get out of our comfort zone and save money. >

We're talking about a 10% reduction per year more or less. I'm looking at slide 42, which is talking about the major -- categories of capital projects. I wondered if you could walk through me -- which of these categories have -- are we seeing that 10 percent reduction showing up in? What are we reducing?

It would be across the board. One of the things that went down a lot is -- is we don see a lot of service extension requests. Like we had. So that's an area we pushed back hard on. In general, we're still seeing very good bids on pipeline projects. I mean, I would just give you a case in point that we for next year, one of our biggest projects is a major sewer rehab around airport, airport chesterfield. We had estimated 5 million for that project and the bid came in at five. So we have updated those projects. We were able to deliver our southeast program project elements for about $40 million less than we anticipated in the five year c.i.p. We updated all of those estimates. Plant 4 we updated all of that although that's I think going to end up coming out about where we thought. That didn't really change a lot. We sequenced some projects. We had a pretty good chunk of projects lined up at our davis water treatment plant. And we kept the design of those in the current years, but the construction of those are going to start to focus more in -- once plant 4 is done. That's I think a good sequence for us in terms of our ability to get work done, some risk management there, having davis under major construction, why plant 4 is not in service yet, to me it was a risk factor that we wanted to work through. I mean, there's just a whole, it's probably literally I mean our c.i.p. Over the five year period is probably 3 or 400 projects. We squeezed just about every one of those. So I can't really say it was just this one project. But it was -- [multiple voices] all of that.

Spelman: Everything has been moved around at bit. But in terms of [indiscernible] outlines, if I were comparing 42 -- page 42, which is your basic description for the next five years, to what your basic description would have been last year or the year before that, not in front of us but just trying to get a sense of how things have shifted. Water treatment plant you are spending about what you expected to spend no change in that. Existing treatment plant improvements gone down because you are moving some of the davis stuff for example from this five year period, maybe into the next five year period [indiscernible] because you don't want to be working on two treatment plants at the same time.

I would say at the end of this five year period into the next five year period.

Probably lower than you would have projected last year for it to have been.

I would need to look at all of that to say for sure, I don't want to wing it on that, but that was some of the changes we made. David jump in if some other ones come to mind.

Service extension requests are probably down. You were saying 12 or 14 miles per year of water and wastewater system rehab or is that just water rehab.

Just water.

[Indiscernible] something like 70 miles over this [indiscernible] [sound cutting in and out] expectation year or two ago we were going to be doing 12 to 14 miles --

if you looked in the past it kind of had a real up and downment one year like 20, then like two and so we wanted to -- to kind of stabilize that overall. I don't think that mileage is down a lot. If at all from our previous forecast periods. But I will want to look at that. In part we tried crystallize where we were doing main replacement. It was hard to tell internally, through transportation projects, on our own, sometimes we weren't tracking all of that. One of the things that i directed our staff to do is better be able to produce this kind of a graph because you were asking us questions on that and I wanted to be able to better do those things.

Spelman: Sounds like I'll have to follow-up with your staff later on to get a sense for how much things are moving around. Sounds like that 12, 14 is probably lower than we forecast we were going to be doing last year or a couple of years ago on average.

[Indiscernible] for sure to say that. I don't really recall it right off the top of my head if t significantly. When you reduce your capital program $200 million and you had a $50 million revenue shortfall and, you know, you're trying to manage that, you do have to change some projects. In general our priority is to not -- not pull the wings off of things that are happening. Things that are regulatory requirements. Things that are, you know, an absolute must for say public health and safety. I mean like as an example. Part of our capital program was replacing all of our breathing apparatuses. We don't do things like stop that.

Spelman: Good [laughter] just to get a rough sense of it, if we're talking about a 10% reduction in capital improvement programs overall, but water treatment plant 4 biggest single chunk hasn't moved at all, everything else has to be moving by a little bit more than 10% on average. I'm just trying to get a sense of [indiscernible]

I think councilmember the other factor is the previous five year forecast period 2 some billion dollars of spending, now projecting a little over one billion. In part it's because 2011 dropped off, which was a pretty high capital year. And 2016 came into focus.

Lower, sure.

Which is overall lower average capital because we don't have something like that plant 4 in it. That's a part of that. That five year reduction, too, the outer years are lower as opposed to the years that are dropping off. You know, next year we would see a similar phenomenon the 2012, 288 million would drop off, the 2017 would come on, probably in the 150 range, you are going to see this five year c.i.p. naturally.

Right.

At least five years from now, gosh knows what could happen. But the forecast that we're under is that -- that these heavier years start to abate. Austin clean water program behind us, water treatment plant 4 behind us. That will settle into 150, 170 capital program.

Two things going on. Moving the window from the high priced years, this year, next year, year after that, until we are down with water treatment plant 4 and other things on the books and have been for a while. The window is moving, causing the total five year program to go down. But at the same time we're also reducing some of the items in the -- in each of those years in the five year windows because we're getting better pricing and prioritizing our projects more stringently.

Yes.

Okay. I'll follow up with your staff and get more resolution on that stuff. Of course the stuff that you have

to do when your revenues go down, you have to find a way of tightening the belt [indiscernible]

yes.

Thanks.

Mayor?

Mayor Leffingwell: Sheryl? And just keep in mind, folks, that we're going to start to lose quorum in about an hour, we have four more departments to cover.

Cole: I just have a couple of questions, greg. I wanted to follow-up on the water treatment plant 4 question. How much have we expended to date?

We have oh, my gosh. We have about $270 million under contract. The amount of that checks have been written and spent is probably right around 115 million. We'll have a new monthly report coming out in a week and I would have a more exact number from you -- for you.

I appreciate the presentations that you've been doing to audit and finance and the citizens input to help monitor that. Keeping with the mayor's goal, I just -- really struck me how high and i understand the financial reasons that we have to do that that I was in the bond council meeting, I think it would be helpful to actually have the total projected amounts on the bills for the next five years for not only water, wastewater, energy, to just know what it's going to look like to the consumer given our presentation yesterday. And I would just ask for that.

I think that's something that -- that leslie has for you.

Cole: Okay. Okay, thank you. Thank you, mayor.

Mayor Leffingwell: Laura?

Morrison: Thanks, I'll try to be quick, i understand that we have a lot to go. I have a question on slide number 23 talking about the built-in cost drivers and one of the things of interest to me is the new billing system is going to actually be more expensive to participate in as basically as a customer.

Yes.

Morrison: Can you explain that at all, why it's going to cost 8 million more to have that? The water utility I presume that's not something we talked about with austin energy yesterday.

In general, through the five year forecast period, our annual costs for customer care that we pay austin energy is going to approach 20 million. That includes paying for our fair share of the billing i were mentation, the cost to -- implementation, the cost to produce and mail bills, customer service reps --

let me stop you right there. I think that you might have just answered my question. 8 million is to go to pay the $58 million for that billing system, is that perhaps correct.

That's part of probably our fair share of it. The other element is meter reading. Austin energy is almost complete with their conversion to what they call amr, automatic meter reads where they read their meters digitally, they don't have anywhere near the same number of physical meter readers out there. Austin water's meter system, you know, our meters are more like in your front yard. That is still a system that requires folks to read it. So we are paying for those folks more on our own as opposed to sharing

that cost with the ae. So that's another piece of it that's -- that's our piece.

Okay, good. That's helpful, I appreciate that. Then I want to skip around a little bit. On the wastewater averaging, one of the things that's interesting to me would be interesting to me and i don't know who has a history here, and that would be what was the rationale in the first place for dropping the highest month? I've heard on -- I can think of a few things perhaps sometimes there's broken pipes if we had a freeze. There's a lot of holidays in those periods. So you get some non-traditional uage. Rudy, do you have any recollection of that?

Dave has been here 23 years.

I couldn't imagine that you could have been here that long.

Prior to 2001, the council actually implemented a one-year change to the dropping of the highest. About two years, two to three years before that. And it was in typically drought years. So if it was really dry during the year, I think one of the years was '96 or something like that. Where if it was really dry that year, the people would say hey we have to water our lawns during the winter or we have to water our trees so they don't get oak wilt. Because we're having to water that, that we're actually irrigating more during the wastewater averaging period so council actually chose to make that one year change. In 2001, it was also a dry year and for that drought we chose to do that as well. But then there was instructions through council to just keep that permanent because of some of the things. So it's really I think the biggest focus of that change was for a drought sort of the drought impact and responding to that drought impact. But we've kept that on there every year since 2001.

I would imagine if it wasn't a drought year, it wouldn't make that much difference.

Well, like -- obviously, it would make a difference -- it wouldn't make that much difference from a customer not irrigating because they wouldn't -- like last year in 2010 we had one of our very lowest wastewater averages ever. It was like 4100-gallon average for -- for our residential customers because it rained, no one watered at all during that thing. But we lost a significant amount of revenue for that remaining 12 months that that was implemented for that -- for that new -- that wastewater average. So it's a way to, you know, in response to that, we had to have a higher rate increase last year for wastewater because of that lower wastewater average. So going back to a three year average for most typical years, would tend to sort of even that out and then we could respond to -- to a drought condition individually each year if the council decided.

Three month average, not three year. But I guess we need to keep in mind we're trying to measure how much of -- how much the wastewater system is being used. As people are irrigating, they are not using the wastewater system. That's the whole point. So I feel a little uncomfortable about that change. But do -- I guess follow-up question is do you have a sense -- have you calculated how much revenue, increased revenue this is going to bring or what the difference would have been last year? To go from two to three months and what the average impact that might be.

Off the top of my head, i don't have the dollars number. I don't have that right off the top of my head. But I do know that the change that we are projecting to go back to the three months would add about 400-gallons to our wastewater average, the average residential wastewater average. So currently right now we're at about 4200 gallons, raise it up to about 4600-gallons typically. With that additional consumption that people will -- are the flows that people will be paying for, then the -- then the corresponding rate increase associated with that would be a little bit less because they're paying for a little bit more volume, so we would reduce the rate increase associated with that.

Morrison: Okay. Let's see, then to follow up on one of the questions that the mayor asked about and commented on, in terms of reclaimed water, at this point you said that we're not actually covering our costs of the reclaimed water system with the -- with the rates that we're charging. Did I hear you

correctly on that?

Currently the water and wastewater utility is subsidizing those costs.

Is that -- I just want to understand that a little bit better, we are subsidizing it because the revenue is not paying for the infrastructure and operations? Worry counting the -- we're counting the infrastructure in that, also?

That's correct. We're projecting next year in 2012 that we will collect about $900,000 in revenue from the reclaimed customers that we have. But the costs associated with the reclaimed system and the infrastructure that we put in is several times greater than.

Martinez: I see. That takes me to the discussion about the sustainability fee. Talking about what ought to go into the sustainability fee, to me that's sort of a sustainability infrastructure. I could see -- I know that you haven't done too much analysis, those are some of the items that you had listed out. But I think it would be interesting. Especially after our long discussion with austin energy yesterday, about truly trying to allocate the costs of the baseline providing the service and i think that -- that we can do, it would be real interesting for us to delve into that, then we can make sure that we're real fair for make sure those costs get allocated to the different classes of people. I would appreciate being able to do that. As we discussed yesterday, we need to be really careful, once you start putting in fixed costs you are disincentivizing conservation. I think we have a lot of work to do there. Lastly I wanted to follow-up on mayor pro tem's comments about the -- about the montopolis situation. I appreciate that got moved. It was surprising to see a zoning case come from one of our departments that was in conflict with our neighborhood plan that we as council adopted. I appreciate that. I think that just stronger sensitivity from all of our departments about working with neighborhood plans, we also have a -- have a resolution that councilmember riley and i had drafted that was adopted about taking infrastructure projects to the design commission and making sure that we really understand that, you know, specially as we grow more dense and more com exactly, the infrastructure -- compactly that the infrastructure has to be an element of our environment so I appreciate raising awareness of that among all of our departments.

Mayor Leffingwell: Maybe we could put that design into the sustainability fee, too. [Laughter] but I just wants to say that I totally concur with laura's comments about we ought to take a look at the subsidy, just the subsidy part of reclaimed water as a part of the sustainability fee. That increases the transparency, paying for what they get and knowing what they are paying for. Randi?

Shade: I was going to echo that exact comment. I think that's a really good point that laura made just now. I think that the discussion about whether or not this is part of cost of service, you know, the transparency discussion that we're having, I think it really plays on what chris said at the beginning, really this is a business model adjustment that I think is absolutely necessary to be made. So the word sustainability is really about sustainability of the utility. And its financial well-being. Not only tied to the conservation efforts, which I agree with chris' comments is part of the sustainability of the system. We still have to conserve because we only have one source of water, lake travis or austin. I appreciate the work. I appreciated laura's additional comments and was going to ask one thing about the wyland's piece of this. What are they fully responsible for, the operations?

We have staff, probably about 25 staff that patrol the wild lands, you know, look for trespassers, maintain the fences, biologists that help us with managing birds. We manage the wild lands to complement their mission. On the water quality lands we try to manage them in a way that improve water quality. We sometimes manage wild fires.

Shade: Seemed like i read about some of their work this past week. [Multiple voices]

opened the door, kudos to our staff team with afd, we had three or four staff who trained wildfires, help

afd on the wildfire and provide consultation and firefighting capabilities. Really diverse group out there.

I think most people would think of the water utility's role in things like these kinds of emergencies and with respect to -- to being able to have what is necessary to fight fires, you know, that's something that's clearly part of what people expect our water utility to be able to perform and respond to. So again I think that it's part of the overall what people expect from their utilities. I mean, these are part of our core services. So -- so I don't really think that we should be debating, you know, whether it's really core to the utility or whether it would be transferred to a different department. I think citizens need to be paying for it. It seems like it makes sense to be under your operation as opposed to parks. Again the other part has laura brought up, probably other things to include, too, just the cost much doing business and the -- of doing business and the increase in everybody's bills again as you pointed out unlike what we were looking at with the electric utility -- well, we still have a very tiered system. Because you are charging with a different rate for that sustainability fee depending on the size of the meter, you are still not penalizing people for conserving. A little bit better balance here than I think we might be seeing on the electric utility side. Anyway I appreciate your work on that. Most of the other questions were appeared I know we have got to move on. But thank you for your work.

Mayor Leffingwell: No more questions, thank you very much.

Thanks for spending the time. Without objection council we're going to skip watershed, cover them at other time and go to solid waste services.

Martinez: Mayor, councilmember riley and i have a capital metro board meeting, we have about 30 minute left on the clock before we have to get out of here.

Good evening, council, mayor, I hear the tight time line, I will proceed with the solid waste services forecast and we have our traditional sources of funds, our anti-litter fee fund, our collection services fees on the utility bill as well as our recycling revenues. [Indiscernible] operational support. We do have increasing expenses on our waste diversion activities. Moving towards a comparison on national rates. This is a little difficult at this time. We will improve the -- these metric comparisons over time. We are looking for like communities throughout the nation that have similar services that we can compare our rates to. Austin ranks pretty low compared to some of the west coast communities. Fairly comparable to phoenix and fort worth. Fort worth is a good measuring stick. Given very similar service that's we provide that. Looking at the texas solid waste rates, once again we'll improve as we research other texas community with similar services. We look at el paso, corpus christi, san antonio, they don't have the stratified rates that we have, yet they do have similar services. Dallas, fort worth and austin do have rates similar to austin. We are a little bit high on the 96-gallon compared to the other texas communities. But very comparable in the other rates there. You'll note that in this slide as well as the previous slide, our pay as you throw rates are reflecting those differences, those different rates in the different bars . To dive into our five year forecast, some of our expenditure assumptions include a couple of positions to be added to our house hold hazardous waste program. We will be on october 1st adding saturday hours. We are open the first saturday of every month. We want to include all saturdays throughout the year. But also a longer operational hours during the week. That requires additional staffing. We have heard that from our citizen communications in our swac commission as well as through our master plan hearings. The universal recycling ordinance approved through council last fall will require some assistance, community assistance, business assistance and we are projecting four new positions in that arena to implement our universal recycling ordinance. Fiscal year '12 through '12 6, of course we share a revenue code, sharing a revenue source, so there is a transfer to code compliance with an assumption of five percent annual growth. We are also assuming a 3% annual wage adjustment as most other enterprises are assuming as well, too. In 2016, this is an undetermined projection, 10 positions for the universal recycling ordinance, to implement multi-family collection. It is our intent in the the universal recycling ordinance to provide the same as single family for multi-family. We are still working on the numbers, still looking at the projections what types of vehicles are needed types of services are needed. Warm and fuzzy and not an exact number. Some of our cost drivers for fiscal year

2012 in the base personnel, the increasing cost of health insurance, wage adjustment as some supplemental pension funding put some pressures on our budget, minor pressure. Some of our other built-in cost drivers, the code compliance fund, supplemental retirement, general obligation debt service increases. Some transfers from the to cover some of our landfill monitoring and closing of our landfill. So these cost drivers are fairly typical and not unusual. Our 2012 operational changes are a bit new. And not -- not the traditional path of solid waste services. 's that I mentioned for the hhw and the universal recycling ordinance expansions. We will receive as we anticipated some increases in our fuel costs. We are mitigating that over the life of the -- of the forecast, five year forecast, with transition to alternative fuels and the -- and the cng pricing of fuel is increasing but not as rapidly as diesel. So it will mitigate some of those increases over time. We are a contributor to the tree trimming program. The city-wide tree trimming program. And we -- we look forward to some increased costs in cart purchases noted in a later slide, we will be introducing a 21-gallon cart. That is an initial operational expense to purchase those carts. Also on this slide, at the bottom, is some repurposing of some funds. Some cost savi essence. We have encountered a cost savings from our previous recycling contract to our current recycling contract in transportation expenses. That were incurred transporting to san antonio. That is a savings in this year's budget but also it was a projected to be an expense in fiscal year '12. It will not be. So there is some savings down the line there. We also have in this fiscal year as well as projected in next fiscal year some collection service efficiencies such as our routing. I looked at the mileage that our trucks are traveling out on the road, the large carbon footprint, we will be investing in significant changes in our routing so reduce that mileage. That should be a cost savings that we're projecting in fiscal year '12. That's other services and consultants that were projected for fiscal year '11 and '12 that we have minimized, we have internalized much of our expenses that we had originally projected in the consultants and therefore some cost savings that project forward. Some of our revenue assumptions, I would note this chart reflects monthly as opposed to annual fees. Monthly utility bill. We are introducing a 21-gallon cart. And this has been discussed and supported strongly through our swac commission. That 21-gallon cart I failed to bring the example. I will bring the example in our next discussion. It is a smaller cart than the 32. Yes. It's -- it's about 8 inches shorter than the 32-gallon. It looks small. I have tried it at my curb, it works quite well with our trucks. A little bit of adaptation expense with our trucks. It is a smaller grab. But we can work with that. In that introduction we are proposing a $4 monthly fee for the cart per month. Cart fee. Aggregate total for customer using the 21-gallon cart would be 17.75 a month. That includes the base rate and the anti-litter fee fund. That is a slight reduction from the 32. We -- we anticipate some transition to -- to the 21-gallon. We in future years plan on some additional cart rate charge increases that will differentiate the 21 from the 32 even more so. And the other carts. And this year we are also projecting a rate adjustment on the 96-gallon cart only that would be a dollar increase. That is -- that is in addition to the dollar increase that we incurred this fiscal year and the purpose of that obviously is waste reduction and encouraging residents to move from a 96 down from the 64 to a 32 and even the 21-gallon cart. Our master plan initiatives are not included in this rate structure as we are projecting today you will hear from me this summer on our master plan. We will be introducingnd presenting our master plan for our department that includes all of our zero waste initiatives. And I am fine tuning the expenses. I am uncomfortable with some of the expenses that were projected by our consultant and we are scrubbing that budget. You will find it to be a very aggressive and progressive zero waste plan as well as a department plan, but I'm -- I'm not quite ready to present the expenses at this time. The growth in our customer base, we are projecting a population growth through our demography and we -- we have reflected that in our rates in our revenue projections. Our forecast summary, in the past, the -- the past few years, our solid waste services budget has expended more than revenues taken in. It has depleted our carryover balance. It is my desire as a fiscally responsible director, I look for a structurally balanced budget. We project reaching that point in 2013 with the revenue assumptions that we have on the plate at this moment in time. We are looking to live within our means from fiscal year '13 onward. That does require some rate adjustments and some very strong look at expenditure patterns, we are scrubbing our budget any excess expenditures. The ending balance is driven primarily from the need to MEET THE 1/12th Requirement, but any excess that we have at the end of the year on the 30 day reserve we have looked forward to transferring to fund for any facility recommendations from our master plan. So that more on that at a later date there. Our capital improvement program is primarily driven by equipment purchases. Most of that is in replacement as equipment retires. We are looking at 18 in fiscal year 12 and 15 light vehicles. Most of that is through

growth and annexation as well as replacement of older vehicles. Some of the light vehicles, the purpose for those purchases are primarily driven by the universal recycling ordinance and some of our expanded activities in community outreach. Our master plan, I kind of hinted at that, a few times today, we are nearing the finish line. We have had a significant number of public hearings and meetings throughout the past year. A lot of citizen input. Tremendous amount of citizen input on our march 30th master plan meeting. We are now in the final writing stages of the master plan. I hope to present to council in late summer, 2011 this year, this -- this forecast does not include the expenses of the master plan. We are looking at new expenses in -- in marketing campaigns to the public. Our zero waste initiatives. We are exploring facility development on a north household hazardous waste collection site as we expand the hours on the south side we do hear comments from the public about the location, most recently I heard that our south location is on the way to san antonio. And that tells me that i need a northern site as well, too. We are looking at a north service center that might encourage routing efficiencies as we discussed the recycling accounts and the north and south of the river discussion. There may be an advantage to having a north service center and a south service center. Looking at the facility development costs that's involved there. We are also looking at expanding our resource recovery facility at the landfill. Those expenses I will be presenting at a later date as we analyze our options there. Finally, organics collection. We are looking at food, organics collection in the late years of this forecast and it's -- I'm still working on analyzing the costs and the implementation strategies on the organics collection. In summary, and of course questions from council, our operational expenses in this year as well as next year we're repurposing about 4 million to cover program expansions and new expenditures and this allows us to mitigate any major rate increase for this year. The rate adjustments throughout the forecast period are primarily 2013 through 2015 with the exception of the one dollar increase in the 96-gallon for this next fiscal year, fiscal year '12. And we are looking forward to the adoption of our solid waste, zero waste master plan and that will further influence our discussion on the rates and revenue projections and expenditures. That is the quick version of my powerpoint. I'm open to any questions that you might have.

Mike?

Martinez: Just want to ask a couple of quick questions. On your slide 61, your multi-family and commercial recycling collection, you didn't mention this, but i have to assume that you're also contemplating potential contracting out. You talked about what it would cos us for neat and employees. Are -- for fleet and employees, are we looking at a contracting out option.

Good point. Absolutely yes. That's why I am uncertain on the cost. I'm looking at contracting first and -- as a primary objective and seeing what that cost is. Then comparing that to what we could provide as an internal provided service. I do believe in contracting where possible, but with -- with responsibility on the budget.

So as we continue to contract out more and more services, obviously we lose some control of the day to day operation. But I wanted to ask do we have provisions in our current contractual agreements that speak to climate protection and potentially conversion to cng?

Yes. We are tipping into much of that activity in our recently signed agreements. Certainly in future agreements. The two most recent agreements the city facility contract is -- with a private vendor does have increased reporting requirements on recycling and mileage and some of the carbon footprint measurements. Similar requirements on our downtown as far as agreement. -- Downtown service agreement. Future contracts, including multi-family, far more detailed specifications and requirements for greener vehicles. Those are not in the current contracts. But were in the evaluation stage in future contracts they will be requirements for greener vehicles and a smaller carbon footprint.

Martinez: Great. You also mentioned the rerouting that you were able to establish efficiencies an savings and reduce our carbon footprint. I asked this question as many times as I can with folks that I think might be able to respond, but I've never gotten the response of -- of how we could possibly do this.

Here's the question, I'll lay it out again for the 20th time. Is there a way for us to minimize traveling twice up and down the street by picking up on each side of the vehicle.

The answer is yes, it does require a different type of vehicle purchase. I'm researching that vehicle. It's a dual side automated vehicle. It is -- I have seen -- i should say I have seen it in the trade shows, not out on the road. I am looking for a community that experienced it and seeing how they like it.

While it may cost us more in infrastructure to -- for the equipment, we could see potentially 30 to 40% decrease in fuel costs and carbon footprint, I think it would be certainly worth our time and effort to try to see if that works for austin.

Absolutely. The concern, the direction is definitely I'm piqued in that direction. I've challenged my staff a 10% operational efficiency next year in our current structure routing.

Thank you. Last points that I'll make. When I look at your rate projections for the next few years, you know, because you are trying to create a revenue stream that's more within your means to operate, why wouldn't we contemplate a $3 increase in the 96-gallon this year and 05 next year if we're going to get to 05 in two years anyway.

I am entirely open to that discussion. My hesitancy up to this discussion was that i recognize other rate increases in water, austin energy and other enterprises. So holding back a little bit. The other point is that I am also with my finance team looking at our variable costs and our fixed costs and attempting over this five year period to adjust our fixed costs on to our base rate and all of the variable costs on the cart costs. That creates some adjustments in this projection.

Can you provide us with the conversion ratio after last year's increased fee in the 96-gallon cart and the kind of impact that that had, it might be worth our while to do the $3 this year because of the conversion rate of folks dropping down to a lower, smaller cart.

That's a good question. I can get that info from my staff and supply that to you. On what we've end occurred in the last year, year and a half -- incurred -- changing cart sizes. I can tell you that 60% of our customers are on the 2% on the 96-gallon. So we have moved a significant number of customers down. I'll get the exact numbers.

Do you know what the 2010 numbers were.

I do not know but I can get that for you.

Martinez: Thank you, great presentation, you are doing a great job at solid waste, robert and bob both doing a tremendous job.

Thank you.

Thank you.

Randi?

Shade: I want to echo those comments first. Say thank you for the presentation and thank you so much for challenging your team to find more operational efficiencies and for repurposing dollars within your existing budget to -- you know, having a new set of eyes as you are still relatively new there gives you a great opportunity to really do that. I want to say publicly how much I appreciate you doing that, that we're seeing the results of it. So I thank you very much for that. The question that I had was in -- I guess

it would be slide number 59, which is the -- the national solid waste rates and what struck me here we are only looking at one other texas city, that's fort worth, I'm curious about how do we compare with dallas, houston, did I miss it?

Yeah.

I'm sorry.

We do --

Shade: I'm sorry, i missed that completely. I went to the next page. I'll take a look the a that that was the question that I had. I didn't know if we conveniently left them out. Great.

I would just add that in future years I will have a more detailed search of texas communities. We're looking for like services and it has been difficult to find communities that provide the same services we provide.

Shade: So like now that I'm looking at it, what is going on you don't know probably but in dallas where there would be this -- are they doing some of the same things that we are with respect to trying to get people off of certain sizes --

they are under discussion on that topic. At the moment they charge the same rate regardless of the size. They have encouraged downsizing, just not a monetary incentive.

I think that's something that mike was asking the questions and I realize that you will follow up, but as we have these kinds of incentives, it's really similar to the balance that we're talking about with respect to the other utilities we've been looking at, I think we really need to understand that a lot better so when we are making decisions about changing rates we can see does it affect behavior the way we expect it to. Sorry I can't speak. Thanks, I will let other people ask questions.

Mayor?

Laura?

Martinez: Thanks, bob, for --

Morrison: Thanks, bob, for the good report, good work. I want to make one comment to highlight the addition of more saturdays, the household hazardous waste. I think that's really in keeping with encouraging what we want to have in this community and also I want to thank you for -- for your department partnering with and make a shameless plug for the drug take back day on saturday, this coming 00, not only will we be taking back any old drugs, anything that you want, at cornerstone church, but the household hazardous waste facility has joined in and they will be -- there will be take backs there, too, thank you very much, i really encourage everybody to come out and do agents spring cleaning of your medicine cabinets. [One moment please for change in captioners]

we recognize the decisions of last week and this week will influence fiscal year '13 onward, and we will be adjusting that as we encounter those decisions. Currently these numbers reflect the short-term agreement.

Riley: okay. Would they be significantly affected?

A better revenue package, similar -- I anticipate similar expenditure per year, but a better revenue of the

recycling proceeds as we move down this path of the 60/40 split. so as we see additional presentations moving through the cycle, we should see different decisions based on the stream.

That's correct. And I may be an optimist on the recycling market but when I plan my fiscal forecast I plan very conservatively on revenues. well, I know I'm going to have a number of questions about every step as we go through that process, and so I won't belabor those today. I did want to ask one other question about the carts, picking up the mayor pro tem's question on 64, slide 64. I'm glad to see we're going to a 21-gallon garbage cart. I've actually been getting questions about the size of the recycling cart.

Yes. mostly at -- -- most recently at the -- i was at the miller development. That recycling cart seems awful big to the size of that lots. They can't get it through their fence gates.

Yeah. is that -- have we given any consideration to coming up with a smaller size recycling cart?

Yes, in the master plan, as we'll be presenting to council soon, I am proposing multiple recycling cart sizes, but in the bundled rate and the service we provide to the citizens, i always want that recycling cart to be equal to or larger than the trash cart. We want to keep the incentive of having a larger recycling cart in there. I recognize a one-person, two-person family house households don't need a 96-gallon, so we will be introducing the 64 recycling cart fairly soon but I would be also projecting in the future 32-gallon recycling, compared to the 20-gallon for the single person households.

And when do you see --

I'm looking at this transition in 2012, 2013 and 2014.

Riley: great. That's good news. Thanks for all you're doing.

Mayor leffingwell: bill?

Spelman: no, question. Just wanted to comment -- thank you for your willingness to run down the fund balance to avoid a rate increase for this year.

Yes. in the context of all the other rate increases, our customers are going to be getting, it's welcome to have a non- -- some department that's not going to be increasing rates. Thank you for that.

I would add two points. One, I'm a rate payer. I live in the city and I see that monthly bill, so that point is well-taken in my monthly bill. And the second point is with the praise that's presented, I would like to mention that my staff has really embraced the concepts that we are discussing, and they've done a wonderful job working on scrubbing our budget. thanks very much. mayor, I simply want to echo -- council member cole. -- spelman's comments and I will save my questions for later because I also have a meeting. Thank you. thank you very much. I'm looking forward to hearing more about this long armed vehicle that's going to take the trash off both sides of the street.

[Laughter]

I think that's going to be very interesting.

Council, we're down to -- we still do have a quorum, but i think it would be in the best interest of the council to have more members here for these briefings.

Ey're all important, so i would suggest that we postpone the remainder of the briefings and we'll

reschedule them at a later time in the near future, without objection.

So with that, we stand adjourned, without objection, at 11:36 a.m.